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DE RUEHBK #2885/01 2671016
ZNR UUUUU ZZH
P 231016Z SEP 08
FM AMEMBASSY BANGKOK
TO RUEHC/SECSTATE WASHDC PRIORITY 4445
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC PRIORITY
INFO RUEHCHI/AMCONSUL CHIANG MAI PRIORITY 5660
RUCNASE/ASEAN MEMBER COLLECTIVE PRIORITY

UNCLAS SECTION 01 OF 02 BANGKOK 002885

STATE FOR EAP/MLS AND EB
STATE PASS TO USTR
TREASURY FOR OASIA
COMMERCE FOR EAP/MAC/OKSA
SINGAPORE FOR FINATT BAKER

SIPDIS

E.O. 12958: N/A
TAGS: [EFIN](#) [ECON](#) [EINV](#) [ETRD](#) [TH](#)
SUBJECT: Financial Turmoil: Limited Impact on Thailand

BANGKOK 00002885 001.2 OF 002

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REFS: A) BANGKOK 2782 B) BANGKOK 2810

¶1. (SBU) Summary: The financial turmoil in the United States has had a limited impact on the Thai economy, most notably on share prices in the Thai stock market. The Thai banking sector's exposure to Lehman Brothers was not significant and thus its solvency is not in question. AIG (through AIA) is the largest life insurer in Thailand, thereby making the USG loan facility welcome news throughout the business and financial community. Newly-confirmed Prime Minister Somchai (and others) made early efforts to calm Thais about the state of the economy. While the banking and insurance sectors remain on solid ground, the turmoil's impact on the export and tourism sectors may drag down GDP growth, just as the domestic political uncertainty continues to do. As such, continued USG efforts to address the crisis would be well received. End Summary.

¶2. (SBU) The turmoil in the U.S. financial system has taken a limited yet predictable toll on the Thai economy, particularly in the moribund stock market. Share prices had already been falling over the past year, in large part due to domestic political uncertainty (ref a). The U.S. financial turmoil has exacerbated that trend. The Stock Exchange of Thailand (SET) Index, which had been valued at approximately 900 points about a year ago and 680 at the end of August, has been valued at between 600 and 625 points since September 16 (as of September 23, the SET Index is down almost 10 percent over one month, approximately 20 percent over three months, and 28 percent over one year). Continued uncertainty in the U.S. market will not alleviate this negative trend.

¶3. (SBU) News of the collapse of Lehman Brothers and buyout of Merrill Lynch dominated the business headlines of Thailand's leading newspapers the week of September 15. Newly-confirmed Prime Minister Somchai (ref b) responded promptly, telling the press on September 17 that he would address the financial turmoil in consultation with the Bank of Thailand. Nevertheless, in a series of meetings since September 16, financial industry and business leaders, as well as RTG economic experts, have noted that despite fearful headlines, there should be limited fallout in Thailand from the U.S. financial turmoil.

Insulated Banks Feel Limited Impact of Lehman Collapse

¶4. (SBU) Lehman Brothers held approximately \$1.5 billion in assets in Thailand, \$1.2 billion invested in property and \$300 million in lending. While property agencies believe Lehman's property assets

in Thailand will drop between 20 percent and 30 percent in value, similar assets in Thailand should not be affected as demand for property is growing (especially for residential homes, office buildings, retail and hotels).

15. (SBU) More importantly, the exposure of Thai banks to Lehman Brothers was not significant. Bangkok Bank had the most exposure with approximately \$102 million in Lehman debt, an amount equal to 2 percent of its equity. According to a foreign investment bank, the three other Thai banks holding Lehman debt are TISCO Bank with \$38 million (11 percent of equity), Siam City Bank with \$29 million (3 percent of equity) and Kasikorn Bank with \$9 million (less than 1 percent of equity). As such, the Bank of Thailand (BOT) and financial industry leaders state the impact of the Lehman collapse will be limited. They are quick to point out the solvency of Thai banks is not in question, only their 2008 profit forecasts. Along those lines, Bangkok Bank's executive vice president explained to the press that while the bank's profits may be down, it will not be enough to create a net loss given profits from other operations.

16. (SBU) Other officials explained that Thai banks are, in general, relatively insulated from the global market. The head of the Thai Banking Association noted that the 17 foreign banks in Thailand own only about 10 percent of market shares. In terms of exposure to foreign debt securities, Bangkok Bank appears to be the most exposed with 14 percent of its equity in foreign debt, of which only 40 percent are in government debt. While other banks also hold foreign securities, most of this debt is in the form of safer government bonds.

Welcome Response to USG Loan Facility for AIG (AIA)

17. (SBU) American International Assurance (AIA) is the largest life insurer in Thailand with combined assets of over \$11 billion and \$8

BANGKOK 00002885 002.2 OF 002

billion in reserve capital. (Note: AIA's assets in Thailand reportedly amount to just over one percent of AIG's total assets. End note). It holds a market share of more than 50 percent, with approximately 4.8 million policies in force.

18. (SBU) Given the importance of AIA in Thailand, business and finance leaders roundly welcomed the USG's loan facility to AIG. Many, including the managing director of a foreign bank in Thailand and the president of an asset management company, pointed out that the loan facility had a direct positive impact in Thailand. The move shored up general investor confidence (as evidenced by a brief up-tick in the Thai stock exchange) and, at least temporarily, calmed the mood in the local business and financial community. Some opined that despite the cost to American taxpayers, the absence of action by the USG could have been disastrous.

19. (SBU) Other RTG officials, in an effort to calm Thai citizens concerned about their insured assets prior to the news of the USG loan facility, noted in the press that Thailand's strict regulation of the insurance industry helped to insulate the industry from external shocks. As an example, the Secretary of Thailand's Office of the Insurance Commission (OIC) affirmed that Thai law allows the OIC to order firms to increase their capital base, suspend new policy underwriting, and maintain a major portion of investment assets in the country.

Still Cause for Concern

110. (SBU) With the banking and insurance sectors on solid ground, concern regarding the financial turmoil is centered on the impact that a continued downturn in the U.S economy will have on Thailand. Specifically, most worry that decreased consumer demand in the United States, and elsewhere abroad, will translate into fewer Thai exports and a general business slowdown, particularly in the tourism sector. Coupled with Thailand's prolonged political instability (ref a), many expect Thailand's GDP growth rate for the year to be revised downward. Others note that the turmoil in the United States has yet to subside and are therefore concerned about a possible

tightening of the global credit market.

¶11. (SBU) Comment: The USG response to the financial turmoil has thus far had a positive impact on the health of the Thai economy. Continued USG efforts to address the crisis, to include the planned \$700 billion comprehensive package to assist the financial industry, should also have a similar effect, helping to shore up general economic confidence and reinvigorate the Thai export and tourism sectors. Ten years after the Asian financial crisis, many Thais remain quick to claim the USG should have done more to assist them at that time. While Thailand today remains focused inward on its unstable political situation, Thais would welcome continued USG efforts to improve the U.S. economy, such as a robust bailout package for the financial sector. End comment.